DAVIS COMMODITIES LLC

June 2022 Market Commentary

The month of June was one of extreme volatility that started with a rally and ended with an absolute plummet in prices. As of today, prices are back under where they were prior to the start of the Ukraine/Russia war in both corn and soybeans. Whether the markets are trying to price a recession or not is debatable, but they are certainly pricing demand destruction.

June started out mostly hot and dry which allowed for a brief rally to test the recent high in corn, then the forecast became more benign, and the market evolved rapidly into liquidation mode. In addition to benign weather to end the month, USDA issued their quarterly stocks in all positions and acreage reports on June 30. The stocks came in almost right on the average expectation and planted acreage was broadly unchanged. Without a surprise to stocks or acreage, the market continued its liquidation of stale longs. If trend yields are achieved (which looks likely with the current forecast), US corn stocks will be tight, but demand rationing will not be needed. The month of July is the most critical for corn as pollination takes place, but good weather will need to continue through August and into September to verify. The bottom line is corn prices can erode further, but good weather will need to be maintained for the next two plus months.

The price action for soybeans mirrored that of corn for the same weather-based reasoning. The biggest difference now is that USDA lowered their estimate of planted acres by ~1.7 million on June 30. By simply plugging the lower acreage into USDA's prior balance sheet, the ending stocks would be at demand rationing levels. On their upcoming report, we expect adjustments to exports indicating rationing. Also, unlike corn, the critical month for soybeans is August. With a lot of summer weather left unknown, it is more difficult to forecast. We do know that South America is running out of soybeans rapidly and the US will be the primary origin for worldwide demand this fall and winter. Even if normal weather is achieved for the rest of the summer, the demand pull this fall will be record (or near record) large. With current supply/demand projections, beans should be more supported on dips.

The program continues to have a long position in cattle but trading it opportunistically. The long-term fundamentals are unchanged. The breeding herd continues to liquidate due to a lack of pasture and low profit margins for cow/calf operations. This liquidation will eventually spur a large rally in fed cattle as fewer feeder cattle will be available to be placed into feedlots and the supplies of beef shrink. The timing is still uncertain, but the outcome is extremely likely. As the calendar rolls forward and available supplies shrink, this position will become a larger portion of the portfolio.

Sincerely,

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